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MEMORANDUM FOR: Mr. Roger Pajak
Office of Special Assistant for
National Security, Treasury
Room 4324
Main Treasury

Attached are briefing papers on the
Jordan economic and political situation
you requested for Secretary Regan. If
we can be of further assistance please
feel free to contact me or [redacted]

[redacted]
[redacted] Deputy Chief
Arab-Israeli Division
Office of Near East/South Asia Analysis

Attachment:
NESA M#81-10010
NESA M#81-10019

Date 28 October 1981

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CENTRAL INTELLIGENCE AGENCY
NATIONAL FOREIGN ASSESSMENT CENTER

23 October 1981

MEMORANDUM

JORDAN: THE ECONOMY ON THE EVE OF THE KING'S VISIT [] 25X1

Amman has parlayed the Arab aid received since 1973 into a development program that has paid off in a rapidly expanding economy and a higher standard of living. As a result of the upsurge in Arab aid and worker remittances from Jordanians employed in other Arab states, the economy is operating at near full employment; public and private sector investment has been dramatically expanded; and a chronic and growing trade deficit has been easily coped with. If Arab aid--which fluctuates with the political situation--holds at relatively high levels and the inflow of worker remittances continues, the economic outlook will remain bright. Hussein's good relations with the PLO and his outspoken anti-Camp David stance have deprived his foreign and domestic enemies of their main weapon--the charge that the King wants to stifle Palestinian nationalism and put Western interests ahead of broader Arab concerns--and the King is unlikely to risk any action in the political arena that would offend his Arab benefactors. []

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Aggressive Development Plan

Jordan's lively economic performance since 1973 contrasts sharply with the post-1967 war period when problems associated with the influx of West Bank refugees and terrorist Palestinian activities sent the economy into a tailspin. Since the 1973 war,

This memorandum was prepared by [] of the Arab-Israeli Division of the Office of Near Eastern and South Asian Analysis at the request of Roger Pajak, Office of Special Assistant for National Security, Treasury Department. Questions and comments are welcome and should be addressed to Chief, Arab-Israeli Division []

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the influx of Arab aid and private remittances from workers in oil-rich countries has pushed up real GNP at an average annual rate of 9 percent in 1974-80. Although in 1977-79 economic growth slowed to around 8 percent a year due to a slowdown in construction and only a slight rise in factor income from abroad--which constitutes the largest element of GNP--economic growth was once again near the double digit range during 1980-81. [REDACTED]

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The high growth rate of the past six years reflects the allocation of one-third of national output to investment. The influx of Arab aid provided the impetus for the launching of an ambitious Five-Year Development Plan (1976-80) that called for the expenditure of \$2.4 billion by both the private and public sectors. Despite getting off to a slow start due to delays in completion of feasibility and design studies, investment during the period actually reached \$3.9 billion. A new Five-Year Development Plan covering 1981-85 calls for the expenditure of \$8.4 billion with an increase in the share for water and irrigation projects. [REDACTED]

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The emphasis placed on the industrial and mining sectors--they received 26 percent of the investment under the plan--resulted in their leading the rather broad-based economic boom. In the mining sector, phosphate capacity has been expanded from 1.7 million tons per year in 1975 to 4.5 million tons last year; a large potash project on the Dead Sea is scheduled to come on stream next year. Manufacturing production has increased by 19 percent per year as a result of growth of light industry, especially food processing, clothing, and building materials, that has taken advantage of growing markets in neighboring oil-producing countries. [REDACTED]

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Roughly 55 percent of the investment under the development plan was by the private sector. Funds for private industry were readily available in the banking system; gross national savings amounted to 38 percent of GNP in 1979 (the latest figure available), giving Jordan one of the highest savings rates in the world. The government's share of the investment was funded mainly by Arab aid and borrowing from domestic commercial banks. [REDACTED]

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The Arab Connection

Economic aid and worker remittances have been vital for keeping Jordan's economy booming and for providing the bulk of the funding for Amman's arms purchases which come primarily from the United States. About 90 percent of Amman's economic assistance over the last couple of years came from other Arab countries, with the remainder coming from the West, mostly the United States. Jordan was promised \$1.2 billion a year through 1988 by the Arab donor countries at the November 1978 Baghdad Summit. Although Algeria and Libya have not fulfilled their obligations, total Arab aid for all purposes averaged about \$1.5

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billion in the last two years. Saudi Arabia and Iraq have been the largest donors, contributing \$1 billion each over the past two years, followed by \$475 million from Kuwait. [REDACTED] 25X1

The boom in the oil-producing countries has also created a strong demand for Jordanian workers. Roughly 300,000 Jordanians work outside the country, primarily in the Persian Gulf countries where wages are much higher. The oil-producing countries seek Jordanian workers because they are the best educated in the Arab world and share the same culture and language. Remittances from the workers totaled \$800 million last year, earning more foreign exchange than commodity exports; the inflow of worker remittances could easily reach \$1 billion this year. [REDACTED] 25X1

The Balance of Payments

The Arab connection has helped finance a chronic and growing trade deficit. Largely the byproduct of the intensive development effort, the trade deficit grew from \$800 million in 1976 to \$1.8 billion last year, and may reach over \$2 billion this year. The import of capital goods and a rising standard of living which has increased the demand for consumer goods has resulted in imports more than doubling between 1976 and 1980. [REDACTED] 25X1

Exports, while only one-fifth the value of imports, have risen at a rapid clip because of strong demand from other Arab states. Heavy investment in Jordan's phosphate industry, irrigation projects on the east bank of the Jordan River, and transportation links have resulted in rapid expansion of exports of phosphates and fruits and vegetables--which ripen during off seasons in neighboring countries. Iraq's war with Iran has been a boon for Jordanian exporters who even before the war had kept Baghdad's shelves stocked with food and consumer goods. Jordan has also benefited this year from serving as a major transshipment route for Iraqi imports. [REDACTED] 25X1

Despite the growing trade deficit, Jordan has been able to substantially increase its holdings of official foreign assets. Reserves grew from \$492 million at the end of 1975 to \$1.2 billion at the end of last year--sufficient to cover more than 6 months of commodity imports. Reserves rose by an additional \$38 million during the first eight months of this year. [REDACTED] 25X1

Economic Difficulties

While vital to Jordan's economic development, the Arab connection is also at the root of its major economic problems--manpower shortages and inflation. The exit of experienced and qualified people is creating a serious manpower shortage since the country is operating at full employment. The drain is particularly harmful to the government where salaries are notoriously low. Despite a 3.4 percent annual increase in the labor force--due in part to the growth in the female

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participation rate from 4.5 percent in 1975 to 16 percent last year--Jordan has had to import about 100,000 foreign workers. Many of these workers--which represent 15 percent of the labor force--come from Egypt, Syria, and Pakistan and are employed as unskilled workers in agriculture and construction. [REDACTED] 25X1

Pushed by rapid increases in worker remittances and the rise in development spending, as well as by increased external demand for Jordanian products, prices have risen at an annual rate of 12 percent since 1975. Price hikes are likely to accelerate from last year's 11 percent since increased government spending is expected to nearly double the deficit and private sector workers will demand pay hikes similar to the 12 to 15 percent raises given to civil servants in February. Although subsidies on sugar, rice, and meat have been eliminated, Amman maintains those on wheat, flour, and petroleum products and regulates the prices of processed foods, cement, utilities, and doctor's fees in order to hold prices down. [REDACTED] 25X1

The Achilles Heel

Jordan's continued economic growth and prosperity depends crucially on its relations with its Arab neighbors. A decline or cutoff of aid would force Amman to reduce imports which would hamper development efforts. Any move to send Jordanian workers home would also be felt on the balance of payments. Social tensions would also be heightened since newly-trained workers would be displaced by more experienced personnel returning from the Gulf States. [REDACTED] 25X1

The King is acutely aware of the crucial link between domestic stability and foreign policy and is unlikely to jeopardize his good domestic standing or alienate his Arab benefactors by taking precipitous actions. Jordan has been an outcast in the Arab world following the 1948 Arab-Israeli war because of Hussein's close identification with the West and rumored meetings with Israeli leaders. Following the 1970-71 civil war--in which the Jordanian Army crushed Palestinian forces--Hussein began quietly to rebuild his ties with other Arabs and endorsed the 1974 Rabat Summit declaration which designated the PLO as the sole, legitimate representative of the Palestinian people. Moreover, Hussein's rejection of the Camp David accords and his refusal to enter the autonomy negotiating process gave him additional stature in Arab eyes. [REDACTED] 25X1

Outlook

The economy should maintain its momentum as long as Arab aid continues to flow into Jordan--the most likely scenario. Financial aid from Iraq may increase further as a result of Jordanian support in the war with Iran; Baghdad has reportedly promised to pay for a rail line from the port of Aqaba to the Jordan-Iraq border. Investment projects such as the potash works on the Dead Sea will be coming on stream over the next few

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years. Continued economic growth should be translated into a
higher standard of living for most Jordanians over the next few
years. [REDACTED]

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	<u>1976</u>	Jordan: <u>1977</u>	Balance of Payments <u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981*</u>
Trade Balance	-813	-1,127	-1,200	-1,555	-1,819	-2,100
Exports	207	249	297	402	574	800
Imports	-1,020	-1,376	-1,497	-1,957	-2,393	-2,900
Services Balance	484	616	573	502	858	1,020
Worker Remittances	390	424	455	520	638	750
Tourism	86	160	133	145	158	170
Other	8	32	-15	-163	62	100
Private Transfers	11	-3	13	-12	26	25
Current Account	-318	-514	-614	-1,065	-935	-1055
Capital Account	419	635	753	1,325	1,056	1115
Government						
Transfers	370	507	335	1,058	1,308	1,500
Other	49	128	418	267	-252	-385
Errors & Omissions	-41	52	104	21	-129	0
Changes in Reserves	60	173	243	281	-8	60

*Projection

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SUBJECT: JORDAN: The Economy on the Eve of the King's Visit

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NFAC/NESAA/AID [REDACTED] (23Oct81)

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1 - *Legislative Liaison for staffers
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[REDACTED]

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